RESEARCH HIGHLIGHTS

April 2003 Socio-economic Series Issue 03-001

HOME$AVE: BUILDING INVESTMENTS IN HOUSING ASSETS

Introduction

The research undertakes a national consultation to evaluate *Home***$ave**, an asset-based approach to antipoverty using housing as a catalyst. The main objective of this research is to determine if an asset-based strategy through housing is a viable solution to poverty reduction.

A common assumption is that lower-income households cannot save. In 1991, Dr. Michael Sherraden of Washington University in St. Louis illustrated the concept of Individual Development Account (IDA). IDA rewards the monthly savings of lower-income households who are trying to buy their first home, pay for post-secondary education, or start a small business. This reward or incentive is provided through the use of matching funds that typically come from a variety of private and public sources. The hypothesis is that individuals who have an incentive to accumulate assets will do so. Asset accumulation should alter savings behaviours and lead to self-sufficiency, thereby allowing individuals to exit poverty.

In January 2002, Canada Mortgage and Housing Corporation (CMHC) and the National Secretariat on Homelessness (NSH) of Human Resource Development Canada commissioned Social and Enterprise Development Innovations (SEDI), a non-profit organization in Toronto, to undertake a national consultation to evaluate *Home***$ave**. This consultation is to validate the assumption that low-income individuals will respond to financial incentives to engage in a range of activities related to housing.

Two reports have been prepared. *Background Report: Study of Individual Development Accounts for Housing, A National Demonstration Project - Home***$ave** details relevant background information. *Final Report: Study of Individual Development Accounts for Housing, A National Demonstration Project - Home***$ave** summarizes major conclusions and key findings.

This research highlights summarizes the *Final Report*.

IDAs in U.S.A

The American Dream Demonstration

Corporation for Enterprise Development (CFED) in the U.S. has operated the American Dream Demonstration (ADD) since 1997. CFED is a non-profit organization in Washington, D.C.

Participation in ADD is limited to households with income at or below 200 per cent of the poverty line, single mothers, former welfare recipients and working poor families with children. Maximum annual savings range from $240 to $7,500 depending upon the State. And participant savings are matched from 1 to up to 7 dollars for every dollar saved. The authorized uses include home purchase, micro enterprise development, post secondary education and home repairs.

The average deposit of the 2,500 participants is $19.07 per month. Of those who have made matched withdrawals, about 33 per cent of the participants have used it for home purchase and 20 per cent for home repair. For those who have not made matched withdrawals, they intend to use the money for home purchase (58 per cent) and home repair (4 per cent).

Assets for Independence Demonstration

The Assets for Independence (AFI) demonstration is established through the Assets for Independence Act of 1998, the first U.S. federal law to support IDAs. The Act authorizes the Department of Health and Human Services to transfer a maximum of US $125 million over five years to

Social & Enterprise SEDI Development Innovations

NATIONAL HOMELESSNESS INITIATIVE

CMHC SCHL

HOME TO CANADIANS Canada

63140

local non-profit organizations to support nationwide 30,000 to 40,000 accounts. Grants are made on a competitive basis to local organizations.

The AFI demonstration allows only savings from earned income. Savings are further matched by a rate of 1 to 8 dollars to a maximum of $2,000 per households. The authorized uses include home purchase, small business capital and post-secondary education.

IDAs in Canada

There are currently two local IDA programs promoting savings for home purchase in Canada.

Calgary: Fair Gains & Owen Hart Homeowners Program

MCC Employment Development has operated this program since 1999. The first-stage-one-year Fair Gains Program requires the participants to save a minimum of $15 to a maximum of $45 every month. These savings are further matched at a rate of 3:1. Participants are expected to attend regular workshops, peer group meetings, and one-on-one counselling. The authorized uses include savings for adult or child education, business start-up or expansion, and home purchase.

The second stage Owen Hart Program is devoted to homeownership. Participants who continue into this second one-year program save only for home purchase. The minimum and maximum monthly savings of $45 and $90, respectively, are matched at 4:1. Participants are required to attend education courses specifically designed for homeowners.

As of early 2002, five participants have purchased a home.

Winnipeg: Housing IDA Program

Winnipeg's Housing IDA Program has been operated by the Alternative Financial Services Committee, North End Community Ministry, Assiniboine Credit Union, Mennonite Central Committee, SEED Winnipeg and United Church Conference partnership since October 2000. Participants are required to save a minimum of $15 to a maximum of $250 every month. Savings are matched at a rate of 3:1. Attendance of money management course is required.

To date, three of the forty program participants have purchased homes and a number of participants have cashed out partially or fully for home renovations. The average monthly saving is $75.

*learn***$ave** *National Demonstration*

Introduced in 2001, *learn***$ave** is the on-going, nationwide demonstration that examines the use of IDAs for adult education in Canada. This $35 million project is supported by Human Resource Development Canada and administered by SEDI. Contracted community partners administer the project in Vancouver (BC), Calgary (AB), Winnipeg (MB), County of Grey Bruce (ON), Toronto (ON), Kitchener-Waterloo (ON), Montreal (QC), Fredericton (NB), Halifax (NS), and Digby and Annapolis County (NS).

Participation is limited to households with incomes of no more than 120 per cent of the LICO (low-income cut-offs) and financial assets not exceeding 10 per cent of their income or $3,000. Participants are allowed to save up to $1,500 over a three-year savings period and the savings are matched by a rate of 3:1. The authorized uses include post secondary education, skills development, micro-enterprise capital, associated supports to learning (like computer purchase), and disability supports.

As of January 2003, over 2,000 participants have opened accounts in *learn***$ave**. The intended uses of the matched contributions include education (62 per cent), skills training (12 per cent), and small businesses (26 per cent).

The eight-year demonstration will be evaluated by the Social Research and Demonstration Corporation (SRDC) in 2009.

*Home***$ave**

The proposed *Home***$ave** program encourages participants to save toward one of the following housing-related goals:

- first and last month's rent;
- downpayment on first homes;
- additional expenses associated with home purchase and home maintenance (legal fees, survey costs, land transfer tax, utilities, property taxes, etc);
- home repairs; and
- a combination of the above.

Under this program, low-income individuals would set up an IDA. Their savings would be matched up to pre-established limits and within a specified time frame. And the matched savings could only be withdrawn for the above purposes.

National Consultation

Consumer Input:

The national consultation on *Home***$ave** consisted of five consumer focus groups in Winnipeg, Saskatoon, Toronto, Montreal and Halifax. The participants were chosen based on their income levels, savings and desire to purchase a home.

*Home***$ave** was generally well received by the participants. They consider matched savings to be a strong incentive and that savings could enhance their long-term prospects. However, participants with lower income levels are concerned that they would never be able to save enough for a downpayment or meet the income qualifications for a mortgage. They acknowledged the benefits of financial training.

Stakeholder Input:

The national consultation on *Home***$ave** also sought multi-sectoral stakeholder feedback in the above five cites. They anticipate that *Home***$ave** would provide:

- positive and valuable impact on the "quality of life", not only for the homeowners and their families, but also for their neighbourhoods and the community at large;
- another way of creating much-needed affordable housing, particularly for those without access to social housing or unable to afford homes at market prices;
- a more cost-effective way of providing affordable housing than assisted rental housing because the amount of public investment is smaller while the potential dividends are greater; and
- an indirect way of improving rental supply by freeing up existing units at a time that little or no rental housing is being built.

They also note the following concerns:

- In Toronto and possibly other high-priced markets, the cost of housing could adversely affect the program. The high cost of owning a house will significantly increase both the income and downpayment requirements. Also, the high cost of rental housing will limit the savings potential of the participants.
- National demonstration appears to impose various research and monitoring requirements that are restrictive and costly.
- There are special challenges with aboriginal peoples related to treaty rights, tax treatments and possibly individual concerns about wanting to deal with only their own agencies.
- Charitable organizations might not be able to support local IDA programs from tax-deductible contributions, because many of the participants in the programs might not fall within those income groups eligible for charitable assistance.
- Administration could be burdensome for the lending institution, and costly relative to any profit that might be derived.
- The matched contributions could be taxable in some jurisdictions, thereby reducing the benefit derived from this assistance.

Limitations

The main report identifies the following limitations of *Home***$ave**:

- The poorest of the population will not qualify. Low income is a major obstacle to savings because there is a minimum consumption level a person must maintain in order to survive.
- Participants must save enough to make *Home***$ave** meaningful. This is because the program requires participants to meet monthly savings target within the specified savings period in order to achieve their goals.
- There is a lack of affordable housing supply. The nationwide lack of affordable housing supply may prohibit low-income individuals from purchasing appropriate accommodation.
- There will be competing demands for liquid assets. The poor are often in desperate need of liquid assets (i.e. cash in the bank) to deal with financial emergencies. However, the matched savings in *Home***$ave** account can only be withdrawn for approved purposes.
- Saving for and applying a matched contribution to first and last months rent are not considered "asset-building". Since home purchase is different from securing appropriate private rental accommodation, a separate Independent Living Accounts (ILAs) is a necessary alternative to increasing access to affordable housing for lower-income families.

National Demonstration

The main report recommends a *Home***$ave** national demonstration and outlines the following programmatic issues and considerations:

- Taxation of matched contributions: It will be important to resolve the tax status of the matched contribution so that the benefits are not reduced, thereby creating a disincentive for participation in the *Home***$ave** project.
- Provincial income and asset caps: All provinces strictly regulate the amount of cash and other assets that Social Assistance Recipients (SARs) can possess while receiving benefits. Since the matched contributions from *Home***$ave** could exceed the regulated asset caps, it is important to make sure that SARs can participate fully in this demonstration.
- Eligibility and screening criteria: The participants should be selected based on (i) medium household income for a family of four of less than or equal to $50,000, (ii) not currently owning a house; (iii) a desire to save; (iv) financial assets of no more than 10 per cent of their income, and (v) manageable debts.
- Allowable uses of the *Home***$ave**: It is necessary to allow accountholders to put their personal savings and matched funds towards other uses such as RESP's or RRSP's should

home purchase become unattainable. It is also necessary for personal savings to remain the personal property of the participants.

- The match rate, savings maximum and savings periods: IDA programs are considered to be more generous the higher the match rate, the higher the personal savings maximum and the longer the savings periods. For example, the *learn***$ave** demonstration offers a 3:1 match rate to a maximum of $1,500 over a three-year savings period. A more generous combination of match rate, savings maximum and savings period is necessary for high-cost metropolitan areas such as Toronto, Montreal and Vancouver.
- Financial literacy course: This includes economic literacy courses, periodic counselling, co-ordination of peer support activities and ancillary services such as transportation and childcare. Its purpose is to prepare *Home***$ave** participants for homeownership responsibility and post-purchase difficulty. All current American and Canadian IDA programs provide such services.
- Strategic partnerships: The partnerships should include funders, intermediary or executing organization (technical consultant), research and evaluation team, financial institution partner(s), site or delivery partners and consultants on an "as needed basis".
- Research design, evaluation strategy and measurement tools: Measurement of outcomes includes attitude, savings amount, accommodation acquisition, housing stability, and economic participation. The techniques include case studies, cost-benefit analysis and evaluation of tradeoffs vs. costs.

The suggested timeline for *Home***$ave** demonstration is seven to ten years, with Project Start-up (one year), Participant Enrolment (one to two years), Savings Period (three to five years) and Evaluation (two years).

Project Manager: Eric Tsang

Research Reports: *Final Report: Study of Individual Development Accounts for Housing, A National Demonstration Project - Home***$ave**.
*Background Report: Study of Individual Development Accounts for housing, A National Demonstration Project - Home***$ave**.

Research Consultant: Barbara A. Gosse, MSc.Pl.
Senior Program Coordinator - Savings and Assets
bgosse@sedi.org
www.sedi.org

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

This fact sheet is one of a series intended to inform you of the nature and scope of CMHC's research.

To find more *Research Highlights* plus a wide variety of information products, visit our Web site at

www.cmhc.ca

or contact:

Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Phone: 1 800 668-2642
Fax: 1 800 245-9274

OUR WEB SITE ADDRESS: www.cmhc.ca

Although this information product reflects housing experts' current knowledge, it is provided for general information purposes only. Any reliance or action taken based on the information, materials and techniques described are the responsibility of the user. Readers are advised to consult appropriate professional resources to determine what is safe and suitable in their particular case. CMHC assumes no responsibility for any consequence arising from use of the information, materials and techniques described.

60975